# Ministry of the Economy

SASKATCHEWAN
OIL AND GAS
ORPHAN FUND

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# Letters of Transmittal

Her Honour, the Honourable Vaughn Solomon Schofield,
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the of Saskatchewan Oil and Gas Orphan Fund for the fiscal year ending March 31, 2013.

Honourable Tim McMillan

Minister Responsible for Energy and Resources

Honourable Tim McMillan
Minister Responsible for Energy and Resources

Dear Sir:

I am pleased to submit the Annual Report of the Saskatchewan Oil and Gas Orphan Fund for the fiscal year ending March 31, 2013. This report has been prepared and carefully reviewed under my direction, and accurately represents the activities and accomplishments of our Ministry during the year.

Kent Campbell

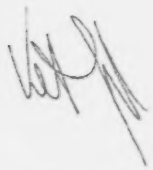
Deputy Minister, Ministry of the Economy

# Management's Responsibility for Financial Statements

The accompanying financial statements included in the annual report of the Oil and Gas Orphan Fund for the year ended March 31, 2013, are the responsibility of the management of the Ministry of the Economy (formerly known as the Ministry of Energy and Resources). Management has prepared the financial statements in accordance with Canadian public sector accounting standards. The financial information presented elsewhere in the annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including written policies and procedures, and an organizational structure that segregates duties. These measures provide reasonable assurance that transactions are recorded and executed in compliance with legislation and required authority, that assets are properly safeguarded, and that reliable financial records are maintained.

The financial statements have been audited by the Office of the Provincial Auditor. Its report to the Members of the Legislative Assembly,stating the scope of its examination and opinion on the financial statements, appears on page eight.



Kent Campbell

Deputy Minister of the Economy

Regina, Saskatchewan

July 12, 2013

## Introduction

The Saskatchewan Oil and Gas Orphan Fund was established in legislation in June 2007 following exhaustive consultation with the oil and gas industry associations and other stake holders. This extensive consultative process led to the development of a comprehensive and robust set of regulations and a program that is fully funded and fully supported by the oil and gas industry.

The Oil and Gas Orphan Fund provides funding to address the costs of abandoning and decommissioning orphan wells and facilities and reclaiming the sites, as well as the costs of containing environmental emergencies arising from oil and gas operations. The fund receives revenue primarily through an annual levy which is paid by the oil and gas industry, thereby protecting tax payers from exposure to these industry liabilities.

The legislative authority for the fund and the specific provisions of the fund are found in *The Oil and Gas Conservation Act* and the regulations thereunder.

The fund is administered by the Saskatchewan Ministry of the Economy (formerly known as the Ministry of Energy and Resources).

## Program Purpose

An orphan oil well is one which the company that was the licensee or owner of the well, has ceased to exist due to insolvency or bankruptcy. The costs associated with proper abandonment, decommissioning and reclamation of these orphaned wells and facilities and the environmental liability associated with the sites are significant.

The Saskatchewan Oil and Gas Orphan Fund was established to provide industry funding to pay for the costs associated with orphan wells and facilities, thereby ensuring these costs do not get passed on to Saskatchewan tax payers.

Each year, the ministry develops an annual work plan and budget and uses monies from the fund to pay for the costs associated with abandoning, decommissioning and reclaiming wells, facilities and sites that have been orphaned.

Monies from the fund are also used to pay administrative and legal costs related to pursuing costs of abandonment and reclamation from responsible parties.

Under the provisions of the program, each oil and gas company operating in Saskatchewan pays into the Oil and Gas Orphan Fund through an annual levy.

## Program Activities

During the 2012-13 fiscal year, the ministry invoiced its annual orphan fund levy of $1 million. The ministry also carried out approximately $0.5 million in abandonment and reclamation projects.

# Oil And Gas Orphan Fund

## Financial Statements

## For The Year Ended March 31, 2013

PROVINCIAL AUDITOR
*of Saskatchewan*

## INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Oil and Gas Orphan Fund, which comprise the statement of financial position as at March 31, 2013, and the statement of operations for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

*Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Oil and Gas Orphan Fund as at March 31, 2013, and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Regina, Saskatchewan
July 12, 2013

Bonnie Lysyk, MBA, CA
Provincial Auditor

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# OIL AND GAS ORPHAN FUND
## STATEMENT OF FINANCIAL POSITION
## As at March 31

| | 2013 | 2012 |
|---|---|---|
| **FINANCIAL ASSETS** | | |
| Due from General Revenue Fund (Note 4) | $ 9,022,493 | $ 7,879,095 |
| **LIABILITIES** | ---- | ---- |
| **Net Financial Assets and Accumulated Surplus** (Statement 2) (Note 3) | $ 9,022,493 | $ 7,879,095 |

(See accompanying notes to the financial statements)

## OIL AND GAS ORPHAN FUND
## STATEMENT OF OPERATIONS
### Year Ended March 31

| | Budget | Actual | |
|---|---|---|---|
| | 2013 (Note 6) | 2013 | 2012 |
| Revenues: | | | |
| Levies (Note 5) | $1,910,000 | $ 1,002,801 | $ 1,007,549 |
| License Application Fees (Note 5) | 90,000 | 410,000 | 330,000 |
| Forfeited Security Deposits | ---- | 130,000 | ---- |
| Interest (Note 4 & 5) | 55,000 | 119,461 | 84,444 |
| Total Revenues | 2,055,000 | 1,662,262 | 1,421,993 |
| Expenses: | | | |
| Abandonment and Reclamation | 2,000,000 | 518,864 | 361,780 |
| Tender Costs | ---- | ---- | ---- |
| Advisory Committee | ---- | ---- | ---- |
| Administration Costs | 55,000 | ---- | ---- |
| Total Expenses | $2,055,000 | 518,864 | 361,780 |
| Annual Surplus | | 1,143,398 | 1,060,213 |
| Net Financial Assets, beginning of year | | 7,879,095 | 6,818,882 |
| Net Financial Assets, end of year – to Statement 1 | | $9,022,493 | $ 7,879,095 |

(See accompanying notes to the financial statements)

# OIL AND GAS ORPHAN FUND
# NOTES TO THE FINANCIAL STATEMENTS
# MARCH 31, 2013

## 1. Authority

The Oil and Gas Environmental Fund (fund) was established on May 17, 1989, pursuant to Section 18.2 of *The Oil and Gas Conservation Regulations, 1985* (Regulations). The fund originated through a one-time assessment of $100 per well to a maximum of $20,000 per operator.

In June 2007, an amendment was made to the *Oil and Gas Conservation Act (Act)* that provided for the continuance of the existing Oil and Gas Environmental Fund as the Oil and Gas Orphan Fund (Order in Council #442/2007). The purpose of the fund is to address the issue of abandonment of wells, decommissioning of facilities, and clean-up of those wells and facilities where the obligations of the person responsible for carrying out those activities are not being met.

## 2. Significant Accounting Policies

Pursuant to Canadian public sector accounting standards, the fund is classified as an other government organization. These financial statements are prepared in accordance with Canadian public sector accounting standards. These financial statements do not present a statement of cash flows because this information is readily apparent from the statement of operations. In addition, the financial statements do not present a statement of changes in net financial assets as the fund does not hold any non-financial assets.

a) The fund recognizes the orphan fund fees as revenue when received with the accompanying first-time license application.

b) The fund recognizes orphan fund levies as revenue when the levies are assessed.

c) The fund recognizes security deposits as revenue when the Minister declares them forfeited to the Crown in the right of Saskatchewan.

d) The fund recognizes any unused forfeited security deposits as an expense when the Minister approves their return to the depositor.

e) Interest is recorded as revenue when earned.

## 3. Net Financial Assets

The net financial assets, together with any future recoveries of well site restoration costs, are available to provide for expenditures under section 18.4 of the Regulations related to the:

a) abandonment of wells and restoration of abandoned well sites, as a result of disappearance or insolvency of the well owner or operator.

b) containment or clean-up of major environmental problems arising from oil and gas exploration, development, production or transportation operations.

## 4. Related Party Transactions

Included in these financial statements are transactions with the government ministries and agencies related to the fund by virtue of common control or significant influence by the Government of Saskatchewan.

The Fund's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan. The bank account is under the Fund's control.

The Fund's earned interest is calculated and paid quarterly by the General Revenue Fund to the Fund using the General Revenue Fund's thirty day borrowing rate and the Fund's average daily bank account balance.

The fund has not been charged with any administrative costs and no provision for such costs is reflected in these statements. These costs are borne by the Ministry of the Economy.

## 5. Fees, Levies and Security Deposits

Section 16(2) of the Regulations requires all first-time applicants for a well or upstream facility licensee to pay a one-time fee of $10,000 which is deposited into the Oil and Gas Orphan Fund.

The primary purpose of the Saskatchewan Oil and Gas Orphan Fund is to prevent the occurrence of orphan wells and facilities in Saskatchewan. However, there are many wells and facilities that have previously been identified as orphans and others that are newly identified each year. These wells and facilities will require abandonment and the sites will require reclamation.

In order to pay for these costs, the Saskatchewan Orphan Fund Levy (the "orphan fund levy") was established. Each licensee in the province is levied, in accordance with the Regulations, on an annual basis to pay a percentage of a budget to carry out an annual orphan abandonment and reclamation program. Section 119 of the Regulations provides the details of how the levy is calculated for each licensee.

In addition, under the Licensee Liability Rating Program, the Minister in accordance with the Act and Regulations may require irrevocable security deposits from holders of oil and gas licenses for the purpose of ensuring that they can meet their obligations with respect to suspension, abandonment, restoration, remediation, or reclamation of wells and upstream facilities and sites.

At March 31, 2013, the fund held security deposits from the holders of oil and gas licenses consisting of $58,948,358 (2012 - $36,710,960) in irrevocable letters of credit and $2,821,164 (2012 - $1,234,711) in cash.

As a Licensee's Liability Rating improves the cash may be refunded to the licensee. The licensees were notified in writing that interest will not be calculated or paid on security deposits.

## 6. Budget

The budget for the fund is included with the Ministry of the Economy budget submission to Treasury Board. Treasury Board approves the fund's budget annually.

## 7. Adoption of New Accounting Standards

The Public Sector Accounting Board (PSAB) issued four new accounting standards effective April 1, 2012; PS 1201, Financial Statement Presentation; PS 2601, Foreign Currency Translation; PS 3410, Government Transfers; and PS 3450, Financial Instruments. The fund's adoption of these new standards had no impact on the fund's financial statements other than the minor changes to financial statement presentation and disclosure.